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**SECRETARY, BOARD OF
OIL, GAS & MINING**

**BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF ULTRA RESOURCES, INC. FOR AN ORDER EXTENDING THE BOARD'S ORDER ENTERED IN CAUSE 270-02 TO ESTABLISH 40-ACRE (OR SUBSTANTIAL EQUIVALENT) DRILLING UNITS FOR THE PRODUCTION OF OIL, GAS AND ASSOCIATED HYDROCARBONS FROM THE EOCENE MIDDLE AND LOWER GREEN RIVER FORMATIONS UNDERLYING THE NW¼SE¼ AND SW¼SE¼ OF SECTION 27, TOWNSHIP 7 SOUTH, RANGE 20 EAST, SLM, UINTAH COUNTY, UTAH, AND AUTHORIZING UP TO TWO (2) WELLS ON EACH SUCH DRILLING UNIT SO ESTABLISHED

**FINDINGS OF FACT,
CONCLUSIONS OF LAW AND
ORDER**

Docket No. 2014-038

Cause No. 270-06

This Cause came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, October 22, 2014, at approximately 3:50 p.m., in the Auditorium of the Utah Department of Natural Resources Building in Salt Lake City. The following Board members were present and participated at the hearing: Chairman Ruland J. Gill, Jr., Carl F. Kendell, Chris D. Hansen, Susan S. Davis, Gordon L. Moon, and Michael R. Brown. Board Member Kelly L. Payne was unable to attend. The Board was represented by Michael S. Johnson, Esq., Assistant Attorney General.

Testifying on behalf of Petitioner Ultra Resources, Inc. ("Ultra") were Ned Higgins – Senior Landman; Carl J. Lothringer – Director, Exploration and New Ventures

and Geologist; and Jeremy Golob – Asset Manager and Petroleum Engineer. Mr. Lothringer and Mr. Golob were recognized as experts in geology and petroleum engineering, respectively, for purposes of this Cause. J. Brent Allen, Esq., of and for MacDonald & Miller Mineral Legal Services, PLLC, appeared as attorney for Ultra.

The Division of Oil, Gas and Mining (the “Division”) did not file a staff memorandum in this Cause, but participated in the hearing. Douglas J. Crapo, Esq., Assistant Attorney General, appeared as attorney for the Division. At the conclusion of Ultra’s presentation in-chief, Mr. Crapo expressed that the Division had no objections to the granting of Ultra’s Request for Agency Action dated September 10, 2014 (the “Request”), as conformed to the testimony and other evidence provided at the hearing.

No other party filed a response to the Request and no other party appeared or participated at the hearing.

The Board, having considered the testimony presented and the exhibits received into evidence at the hearing, being fully advised, and for good cause, hereby makes the following findings of fact, conclusions of law and order in this Cause.

FINDINGS OF FACT

1. Ultra is a Wyoming corporation, in good standing, with its principal places of business in Houston, Texas and, as relating to Rocky Mountain operations including the Subject Lands (*see below*), in Denver, Colorado. Ultra is duly authorized to conduct

business in the State of Utah and is fully bonded with all relevant State of Utah and Federal agencies.

2. Ultra is the sole member of UPL Three Rivers Holdings, LLC (“UPL”), the lessee and working interest owner of the leases covering the NW $\frac{1}{4}$ SE $\frac{1}{4}$ and the SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 27, Township 7 South, Range 20 East, SLM (the “Subject Lands”).

3. The Three Rivers 27-34-720 Well (the “27-34-720 Well”) was drilled with a surface location in the NW $\frac{1}{4}$ NE $\frac{1}{4}$ of adjacent Section 34 of the captioned township. As confirmed by testimony, pursuant to an extension to the APD, the 27-34-720 Well currently has a bottom hole location of 164 feet FSL and 1,980 feet FEL in the SW $\frac{1}{4}$ SE $\frac{1}{4}$ of subject Section 27. The well was completed on May 15, 2014, as a producing oil well from the Eocene Middle and Lower Green River formations, defined as follows:

the stratigraphic equivalent of the interval between the TGR₃ marker, as found at 5,019 feet (measured depth), and the base of the Uteland Butte member, as found at 6,746 feet (measured depth), in the Axia Energy Three Rivers 2-13-820 Well located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 2, T8S, R20E, SLM,

(the “Subject Formations”).

4. The oil, gas and hydrocarbons underlying the Subject Lands as relevant to the Subject Formations are owned in fee (private). The acreage is currently under lease to UPL and there are no unleased owners. Ultra operates the leases on behalf of UPL.

5. By the Order entered on November 9, 2013, in Cause No. 270-02 (the “270-02 Order”), the Board established numerous lands within Township 7 South, Range 20 East, SLM; Township 8 South, Range 20 East, SLM; and Township 8 South, Range 21 East, SLM, including lands adjacent to the Subject Lands (the “270-02 Lands”), as 40-acre drilling units for the production of oil, gas and hydrocarbons from the Subject Formations, with two (2) authorized producing wells per drilling unit so established, *i.e.* to achieve an approximate 20-acre well density.

6. In the 270-02 Order, the Board expressly declared the Subject Formations to constitute a “common source of supply,” as that phrase is defined in Utah Code Ann. § 40-6-2(19) and that wells drilled to produce from the Subject Formations on a 20-acre density pattern would efficiently and economically recover resources from the 270-02 Lands without waste.

7. Also, in the 270-02 Order, the Board declared Utah Admin. Code Rule R649-3-11(1.1) to be inapplicable to any directionally drilled well on the drilling units so established as long as the surface hole location, all productive intervals and the bottom hole location were within the setbacks so established and with the caveat that, if an uphole completion closer than the setback was subsequently proposed, an exception location approval in accordance with Utah Admin. Code Rule R649-3-3 (or subsequently enacted equivalent regulation) would be required.

8. The Subject Formations are comprised of complex stacked, thin sinuous discontinuous channels and shoreline-related facies, with average effective porosities of 8% and average permeability of 0.5 md. The evidence and supporting testimony also demonstrate that wells drilled on a 20-acre well density pattern would intersect different sand bodies and therefore recover additional resources that would otherwise remain in the ground on an equivalent 40-acre well density pattern as authorized under the general well siting rule.

9. As supported by the geologic and engineering exhibits received into evidence and the testimony received relating to the technical data from the cross-sectional wells, the geologic characteristics of the Subject Formations as underlying the Subject Lands are analogous to the 270-02 Lands.

10. The performance data from two wells in the adjacent Section 34, as well as the Three Rivers 27-34-720 Well that is producing from the Subject Formations in the Subject Lands, support the economics of 20-acre spacing of the Subject Lands. Also, testimony proffered regarding the volumetric analysis of the Subject Lands based on 20-acre spacing indicated that the rate of return for the conceptual wells would support the economics of the additional wells drilled in a 20-acre pattern.

11. A copy of the Request was mailed, postage pre-paid, certified with return receipt requested, and properly addressed to all parties, including the mineral, leasehold

and production interest owners, whose “legally protected interests” were affected by said Request (*see* Utah Admin. Code Rule R641-100-200), and working interest owners in the lands adjacent to the Subject lands. The mailings were sent to said parties at their last addresses disclosed by the relevant BLM, State of Utah, and Uintah County realty records, and the Division’s records.

12. Notice of the filing of the Request and of the hearing thereon was duly published in the Salt Lake Tribune and the Deseret Morning News on October 5, 2014, and in the Uintah Basin Standard and the Vernal Express on October 7, 2014.

13. The vote of the Board members present and participating in the hearing on this Cause was unanimous (6-0) in favor of granting the Request.

CONCLUSIONS OF LAW

1. Due and regular notice of the time, place and purpose of the hearing was properly given to all parties whose legally protected interests are affected by the Request in the form and manner as required by law and the rules and regulations of the Board and Division.

2. The Board has jurisdiction over all matters covered by the Request and all interested parties therein, and has power and authority to render the order herein set forth pursuant to Utah Code Ann. §§ 40-6-5(3)(b) and 40-6-6, and Utah Admin. Code Rule R649-2-1(2).

3. The Board took judicial notice of the exhibits admitted into evidence and the testimony received in the Cause No. 270-02 hearing pursuant to Utah Code Ann. § 63G-4-206(1)(b)(iv).

4. The Subject Formations in the Subject Lands constitute the same “common source of supply” as underlying the 270-02 Lands, as that phrase is defined in Utah Code Ann. § 40-6-2(19).

5. A 40-acre or substantial equivalent drilling unit as was established in the 270-02 Order for the Subject Formations is not smaller than the maximum area that can be efficiently and economically drained by one well in regards to the Subject Lands.

6. Two (2) wells are required to efficiently and economically drain each drilling unit established in the Subject Lands hereunder.

7. Notice of the Request seeking to declare Utah Admin. Code Rule R649-3-11(1.1) inapplicable only as relating to owners in the lands adjacent to the other boundaries of the Subject Lands is sufficient as given and the Board has the authority under Utah Admin. Code Rule R649-2-1(2) to modify the requirements of Utah Admin. Code Rule R649-3-11(1.1) as to the parties given proper notice of the Request seeking relief relating thereto.

8. The relief granted hereby will result in consistent and orderly development and the greatest recovery of oil, gas and associated hydrocarbons from the Subject

Formations underlying the Subject Lands, prevent waste and adequately protect the correlative rights of all affected parties.

9. The Request for Agency Action, as modified by testimony, satisfies all statutory and regulatory requirements for the relief sought therein and should be granted.

ORDER

Based on the Request for Agency Action, testimony and evidence submitted, and the findings of fact and conclusions of law stated above, the Board hereby orders:

1. The Request for Agency Action is granted.
2. The 270-02 Order (as defined herein) is hereby extended to establish 40-acre drilling units comprised of the NW $\frac{1}{4}$ SE $\frac{1}{4}$ and SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 27, Township 7 South, Range 20 East, SLM, for the production of oil, gas and associated hydrocarbons from the Subject Formations in the Subject Lands.
3. Two (2) producing wells per drilling unit so established, provided no well may be located closer than 460 feet to a shared drilling unit/lease boundary line and no closer than 100 feet if the adjacent lands are within the same lease and have the same production interest owners, without an exception location approval in accordance with Utah Admin. Code Rule R649-3-3 (or subsequently enacted equivalent regulation).
4. The existing well producing from the Subject Formations upon the Subject Lands to be at legal locations notwithstanding the relief requested.

5. That Utah Admin. Code Rule R649-3-11(1.1) is inapplicable to any directionally drilled well on the drilling units so established as long as the productive intervals are within the setbacks so established and with the caveat that, if an uphole completion closer than the setback is subsequently proposed, an exception location approval in accordance with Utah Admin. Code Rule R649-3-3 (or subsequently enacted equivalent regulation) will be required.

6. Pursuant to Utah Admin. Code Rule R641 and Utah Code Ann. §§ 63G-4-204 through 208, the Board has considered and decided this matter as a formal adjudication.

7. This Order is based exclusively on evidence of record in the adjudicative proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision, all as required by the Administrative Procedures Act, Utah Code Ann. § 63G-4-208 and Utah Admin. Code Rule R641-109.

8. Notice re: Right to Seek Judicial Review by the Utah Supreme Court or to Request Board Reconsideration: As required by Utah Code Ann. § 63G-4-208(1)(e) - (g), the Board hereby notifies all parties in interest that they have the right to seek judicial review of this final Board Order in this formal adjudication by filing a timely appeal with the Utah Supreme Court within 30 days after the date that this Order issued. Utah Code Ann. §§ 63G-4-401(3)(a) and 403. As an alternative to seeking immediate judicial

review, and not as a prerequisite to seeking judicial review, the Board also hereby notifies parties that they may elect to request that the Board reconsider this Order, which constitutes a final agency action of the Board. Utah Code Ann. § 63G-4-302, entitled, “Agency Review – Reconsideration,” states:

(1)(a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 63G-4-301 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request for reconsideration with the agency, stating the specific grounds upon which relief is requested.

(b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.

(2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.

(3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.

(b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied.

Id. The Board also hereby notifies the parties that Utah Admin. Code Rule R641-110-100, which is part of a group of Board rules entitled, “Rehearing and Modification of Existing Orders,” states:

Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or decision for which the rehearing is sought. A

copy of such petition will be served on each other party to the proceeding no later than the 15th day of the month.

Id. See Utah Admin. Code Rule R641-110-200 for the required contents of a petition for Rehearing. If there is any conflict between the deadline in Utah Code Ann. § 63G-4-302 and the deadline in Utah Admin. Code Rule R641-110-100 for moving to rehear this matter, the Board hereby rules that the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the party may still seek judicial review of the Order by perfecting a timely appeal with the Utah Supreme Court within 30 days thereafter.

The Board retains continuing jurisdiction over all the parties and over the subject matter of this cause, except to the extent said jurisdiction may be divested by the filing of a timely appeal to seek judicial review of this order by the Utah Supreme Court.

For all purposes, the Chairman's signature on a faxed copy of this Order shall be deemed the equivalent of a signed original.

DATED this 12 day of November, 2014.

**STATE OF UTAH
BOARD OF OIL, GAS AND MINING**

By: 
Susan S. Davis, Chairman Pro Tem

CERTIFICATE OF SERVICE

I hereby certify that on this 13th day of November, 2014, I caused a true and correct copy of the foregoing **FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER** for Docket No. 2014-038, Cause No. 270-06, to be mailed by Email or via First Class Mail with postage prepaid, to the following:

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